THE

GEORGE WASHINGTON UNIVERSITY

NAVY GRADUATE COMPTROLLERSHIP PROGRAM

UNIVERSITY COMPTROLLERSHIP

by

George D. Hoffman

for

Doctor A. Rex Johnson

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TABLE OF CONTENTS

Page

FOREWORD iii

Chapter

I. FUNCTIONS AND ORGANIZATION 1

Principle Areas of Administration . . . 1
General Functions of Comptrollership . . 7
Organization of the Comptroller's Functions 11

II. INTERNAL CONTROL 15

The Property Control Function 15
The Legal Function 16
The Accounting Plan 17
Internal Control and Audit 22
The Budget 24
Cost Accounting 27

III. INTERPRETATION, COORDINATION AND POLICY . 30

Statements and Reports for Management . 30
Administration of Staff Benefit Programs 33

IV. CONCLUSIONS 36

APPENDIX

I. DUTIES OF A CONTROLLER 37

BIBLIOGRAPHY 39

FORWORD

In close proximity to us, while we have been pursuing our comptrollership studies, there is a field of business administration that is both interesting and relevant to our work: University Comptrollership. The writer has investigated this field and has found that there is considerable applicability of all that we have learned in the various facets of business administration and further that there may be need for some improvement in university business administration. In other words, for those universities not now so endowed, it is felt that a competent comptroller would prove a most useful staff officer.

This paper dwells mostly on recommended business organizations for universities; suggested comptroller's duties are broadly portrayed and are not intended to be comprehensive but merely stimulative of thought and perhaps further investigation.

CHAPTER I

FUNCTIONS AND ORGANIZATION

Principal Areas of Administration

The major objectives of an educational institution are to provide instruction and to add to knowledge through research. It follows therefor, that the real strength of a college or university lies in its faculty. The primary purpose of administration in a university is to serve and aid the faculty in the accomplishment of its objectives. This may well serve as the motto of the university comptroller.

The principal areas of administration in a university, as listed by the American Council on Education, are as follows:

1. Educational administration.-The primary concern of educational administration is instruction and research. This area usually includes also the selection, admission, and supervision of students, and, in many institutions, the administration of extension and other public services.

2. Public relations.-Since all institutions of higher education, both publicly and privately controlled, must look to the community for funds, sound public relations are essential. This area of administration is usually the direct responsibility of the president, with a large measure of assistance from the board.

3. Business Administration.-This area of administration may be subdivided into at least eight well-defined areas:
   (a) Accounting, auditing, reporting, and budgetary control.
   (b) Receipt, custody, and disbursement of moneys.

(c) Investment of funds.
(d) Procurement.
(e) Management of the auxiliary and services enterprises.
(f) Operation and maintenance of the institutional plant.
(g) Selection and promotion of non-academic personnel.
(h) Administration of staff benefit programs.[1]

It is to this last area, business administration, that we turn our attention. Educational business administration has become an important field of service. However, this development is surprisingly recent, for at the turn of the century, business duties were still being carried on by presidents and faculty members as an auxiliary function. There was no such officer as "business manager" or "comptroller" in a college or university. The initial appointees to such offices had to assume the burdens of pioneering in a new field.[2]

It has now become axiomatic that no educational institution, however small, should attempt to carry on its affairs without competent direction for its financial and business matters. Boards of Trustees usually consist of persons of significant outside interests and serve without compensation. They cannot beexpected to consider other than the more important policy matters. The president and faculty members also should not be burdened with business details to the detriment of their

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[1]American Council on Education, College and University Business Administration, Washington, D. C., Vol I (1952).

[2]American Council on Education Studies, Training for College and University Business Administration. Washington, D. C., (April 1937) p. 1.

educational duties.

It is not meant to imply, however, that the Board and the president should dismiss entirely business affairs by the appointment of a business executive to independently conduct the business management of the university. It is intended that a business organization exist with a senior executive in charge, who reports directly to the president and, by the instrument of his organization, serves the president and the department heads of the university.

The number of administrative officers reporting directly to the president should be as few as possible, although it is essential that the president maintain a sufficiently wide personal contact with members of the faculty and staff to retain a broad understanding of the institution as a whole. Even in the largest institutions, it will be found that, by careful analysis of functions, it is possible to reduce the number of executive officers reporting directly to the president to three, for example: the chief educational officer (dean of faculties), the chief business officer and the director of public relations.

As reflected in the American Council on Education Studies, there is no set pattern for administrative arrangements in colleges. It has been found in some instances that the president has executive control of all university officers; in other instances the officers report directly to the governing board.

In university business administration all shades of opinion may be found as to the proper titles and functions of the administrative officers. In some universities the treasurer appears to be the chief business executive, in others, the comptroller, and in yet others, the business manager. In the sampling process of some six hundred colleges and universities, no two institutions seemed to have the same administrative arrangement. The studies, recognizing the diverseness in assigning titles and duties, make a plea for uniformity as to methods and for good business administration.[3]

From the Council's studies as modified by the concensus of opinion at seminars conducted by the students of the Naval Postgraduate Course in Comptrollership at the George Washington University, it is concluded that the idealized functional arrangement of top business administrative management should be as shown in Figure 1.:

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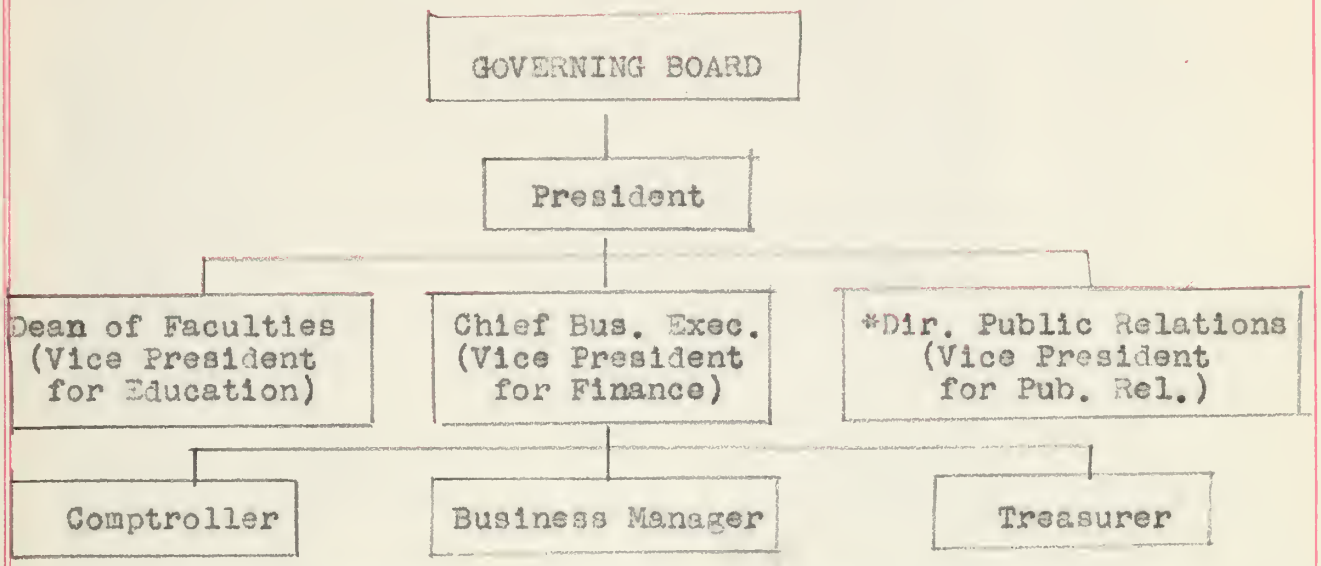
[3]American Council on Education Studies, College and University Business Organization, Washington D. C., Vol II, No.13.



*An optional arrangement since the president may prefer to reserve this function to himself.

Figure 1.

It is to be noted, implicit in the above recommendations, that the comptroller is placed neither in a superior position, where line operating duties would ensue, nor in a position subordinate to the degree that the important value of controllership could not be fully employed. In this paper the advocacy of orthodox comptrollership functions will be proposed, although David R. Anderson in his work, Practical Controllership, advises that as yet there is no clear-cut definition of the functions of a controller.[4]

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[4]David R. Anderson, Practical Controllership (Chicago: Richard D. Irwin, Inc., 1949), p. 1.

The organization of business functions at the George Washington University is observed to be as shown in Figure 2:

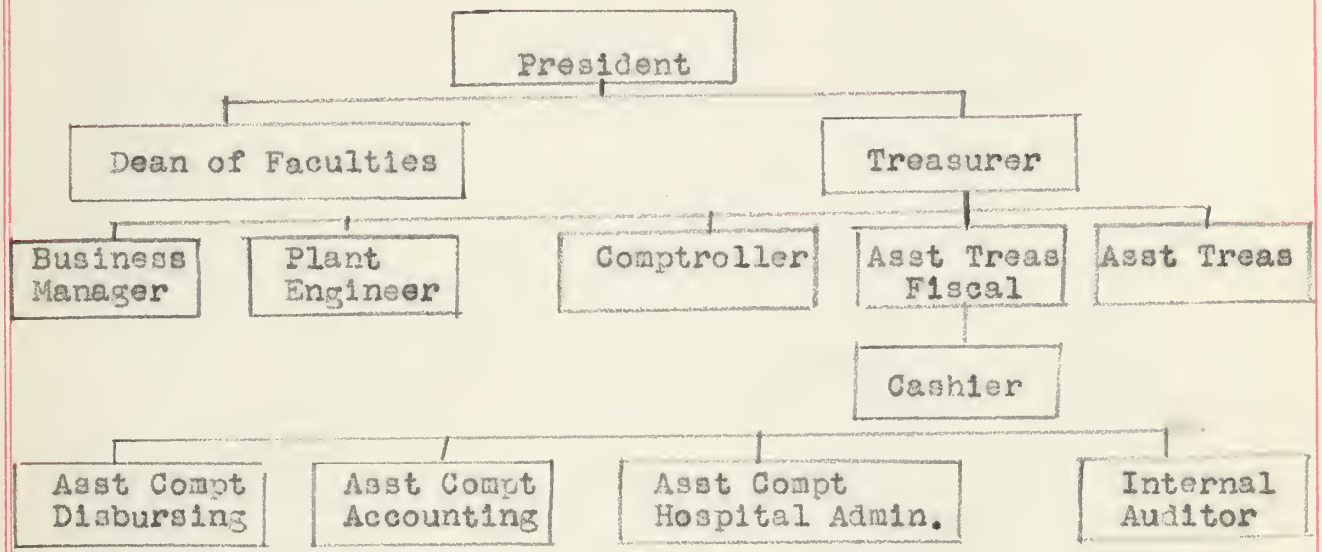

Figure 2.

A brief mentioning of the duties of these officers follows:

Treasurer-Line officer charged with business management, operation and maintenance of the George Washington University.

Business Manager-Physical plant management and minor maintenance, purchasing officer, administrator of communications and office services.

Plant Engineer-New construction (university physical expansion) and major maintenance and renovation of existing facilities.

Comptroller-with his assistants, disbursing payroll, general accounting, internal auditing, hospital administration.

Assistant Treasurer, Fiscal-with a Cashier as assistant. Real estate management, investments, tax matters, insurance, loans and scholarships.

Assistant Treasurer-administration of research.[5]

General Functions of Comptrollership

At the commencement of this paper, the areas of business administration were quoted from the writings of the American Council on Education. In order to outline the functions of comptrollership, these areas will be examined, enlarged upon and added to where appropriate; and at the same time, recommendations will be made for discharging the functions. In making these recommendations, the writer has been influenced considerably by the statement of the duties of a controller in a manufacturing corporation, published by the Controllers Institute of America and shown in Appendix I. Admittedly, there is not complete applicability of the duties as advocated by the Controllers Institute, but it is the general theme of this paper that there is a parallel.

In considering the business administration functions quoted at the beginning of this paper, as taken in context with the administrative organization as shown in Figure 1, the following clarification of controller functions is suggested:

(a) Accounting, auditing, reporting and budget control.

These are clearly comptroller's duties but the requirements are essentially supervisory and should be prescribed

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[5]Drawn from interview with Mr. John A. McLaughlin, Assistant Treasurer, Fiscal, the George Washington University, February 20, 1956.

as follows:

1. The installation and supervision of all accounting records of the university. The governing of standard practices relating to accounting matters and procedures.
2. The continuous audit of all accounts and records of the university wherever located.
3. The preparation and interpretation of all statements of financial status and financial reports of the university.
4. The preparation, as budget director, in conjunction with other officers and department heads, of an annual budget covering all activities of the university, for submission to the Board of Trustees prior to the beginning of the fiscal year. The authority of the comptroller, with respect to veto of commitments or expenditures not authorized by the budget shall, from time to time, be fixed by the Board of Trustees.

(b) Receipt, custody and disbursement of moneys.

These are treasurer duties but the comptroller should approve for payment (and/or countersign) all checks, promissory notes and other negotiable instruments of the university which have been signed by the treasurer or such other officers as shall

have been authorized by duly constituted authority.

"(c) Investment of funds."

Again, these are treasurer duties but the comptroller should examine all warrants for the withdrawal of securities from the vaults of the university and determine that such withdrawals are made in conformity with the regulations and/or by laws established by the Board of Trustees.

"(d) Procurement."

Duties of the purchasing agent under the business manager.

"(e) Management of the auxiliary and service enterprises."

These are duties of the business manager but in the instance of procurement, it should be effected under the sanction of the budget. The accounting and auditing of these enterprises are within the purview of the comptroller.

"(f) Operation and maintenance of institution plant."

The Superintendent of Buildings and Grounds has this function but again, budgetary restrictions and the comptroller's accounting and audit functions are applicable.

"(g) Selection and promotion of non academic personnel."

This is the direct responsibility of the chief business executive with decision based on recommendations of appropriate subordinate officers.

"(h) Administration of staff benefit programs."

This is a comptroller function to which should be added

accounting for income and social security tax deductions.

The following additional areas of administration are recommended, all of which should be the responsibility of the comptroller:

(i) The compilation of educational and administrative costs.

(j) The taking and costing of all physical inventories.

(k) The preparation and filing of tax returns and the supervision of all matters relating to taxes.

(l) The ascertainment currently that the properties of the university are properly and adequately insured.

(m) The coordination of all administrative systems throughout the university, including clerical and office methods, records, reports and procedures.

(n) The maintenance of adequate records of authorized appropriations and the determination that all sums expended pursuant thereto are properly accounted for.

(o) The ascertainment that financial transactions covered by the minutes of the Board of Trustees and/or the Executive Committee are properly executed and recorded.

(p) The maintenance of adequate records of all contracts, leases and rental agreements.

(q) The preparation or approval of the regulations or

standard practices required to assure compliance with orders or regulations issued by duly constituted governmental agencies.

Thus, in broad outlines, the comptroller's functions in a university have been recommended. As previously has been stated, there is a truly amazing variation in the nature and scope of the comptroller's duties and the importance of his job in different universities. In some universities there is no executive with the title "comptroller". In the majority of universities where there is a comptroller, he may be the chief administrative officer on a level co-equal with the president and reporting directly to the Board of Trustees or, on the other hand, he may be a minor functionary of small responsibilities. Middle ground is recommended, wherein the comptroller is an important functional officer with chief responsibility to provide sound management advice based on the records, accounts, statistical and reporting systems which he maintains.

Organization of the Comptroller's Functions

In organizing the comptroller's department much depends upon the size of the university and the qualifications of the personnel available. There can be no pronouncement of an idealized organizational arrangement. However, there are certain major groupings of work which have been found in practice to be effective. A suggestion by the American Council

on Education for the comptroller's organization, portrayed in chart form in Figure 3, as follows:

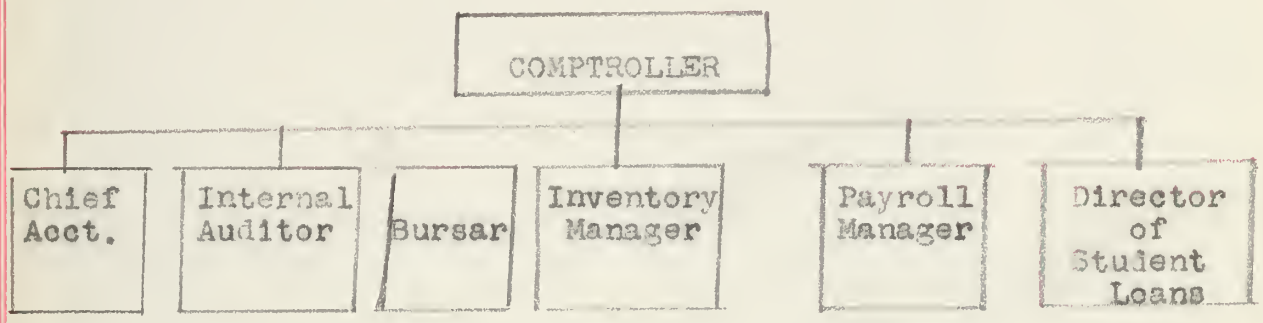

Figure 3.

A. C. E. recommended comptroller organization.[6]

It is believed, however, that there is room for elaboration and some improvement upon the Council's recommendations. In light of the comptroller's duties previously recommended, the organization of his department is proposed in Figure 4.:

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[6]American Council on Education, op. cit., Vol. 1, p. 12.

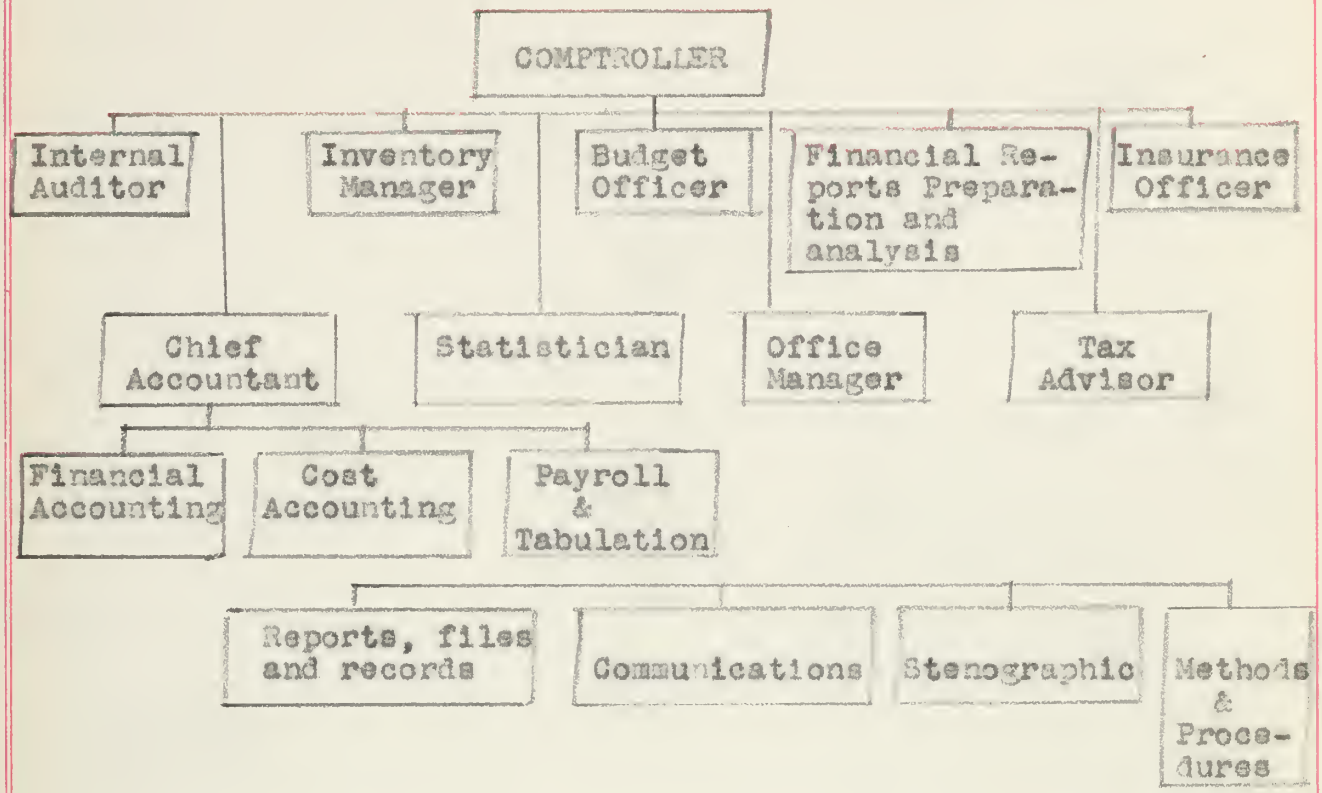

Figure 4.

Recommended comptroller organization

In recommending the organization presented in Figure 4., it is realized that in smaller universities a combination of duties may be required. The following combinations are suggested:

(a) Tax Advisor and Insurance Officer

(b) Statistician and Financial Reports Officer

(c) Inventory Manager with (a) or (b)

If at all possible internal audit should be maintained separate from all other functions andinasmuch as a continuous audit should

be in process, it would appear to be a full-time function. It is administratively advisable to similarly separate the accounting and budgeting function. It is possible to combine office management with another function but if conducted properly, the function can be full-scoped in even the smaller universities.

In those universities which have colleges in different geographical locations decentralization of accounting and clerical functions is necessary. In such situations the records and clerical positions in the dispersed colleges are limited to those necessary to provide prompt service, provide college officers with day-to-day information they need to conduct operations. The comptroller in these cases will determine the form of records to be kept, the routines to be followed and the reports to be submitted.

CHAPTER II

INTERNAL CONTROL

The Property Control Function

The purpose of the property control function of controllership is to protect the assets of the university, i. e., to prevent their dissipation through error, carelessness, or fraud. In order to exercise property control the following fundamental rules should be observed:

(a) Set up accounts so that the personal responsibility of individuals as custodians of the various funds and assets of the university can be identified.

(b) Provide physical facilities and safeguards to prevent movement of property without the knowledge of the responsible custodian.

(c) Issue clear and definite instructions specifying on what authority each custodian can release property for which he is responsible.

(d) Organize the accounting routine so that, as far as possible, the work of every employee who handles university property is subject to automatic check by some other employee or through the records kept by some other employee.

(e) Verify the existence of various classes of property by physical inventory at periodic intervals.

The Legal Function

Since the activities of the typical university include a wide spectrum of human affairs, it is not surprising that its legal functions are equally numerous and diverse. Although few university comptrollers have received formal legal training, it is important that they be able to recognize incipient legal issues and seek appropriate legal advice in time to avoid controversy and expense.

The comptroller's area of responsibility under the legal function should lie generally in the area of tax matters as they may impinge upon the income derived from the various funds and upon the material resources of the university or in the tax collection service in the case of social security taxes. The problem of property tax may be dismissed with the exception of certain real estate business undertakings, since, in general, all property of institutions of higher education used directly for educational purposes is exempt from state and local tax assessment. There are some lingering questions as to tax exemption of property not used directly for instructional functions, such as dormitories, dining halls, athletic fields, service property, and faculty housing. In this connection the American Council on Education states that "Tax exemption is a privilege and it must be so considered by all institutions that enjoy it. Educational institutions should conduct their affairs so as to con-

tinue to merit the public confidence thus expressed."[1]

The Revenue Act of 1950 represents the first effort of the Federal Government to subject the general income of non profit educational institutions, under certain conditions, to taxation. In the case of income from the ownership of real estate, the act imposes a tax only if the property was acquired with borrowed capital and leased for a comparatively long term. Under these conditions the university is viewed as changing from the status of a passive recipient of income to that of an active participant of business. The comptroller should apprise himself of tax matters and advise top management accordingly.

Since the tax-withholding requirements of the Internal Revenue Code now make the employer an agent of the tax collector, the university comptroller must determine the tax status of everyone employed by the university and make provision in the accounting structure, records and reports of the university for the collection of the revenues.

The Accounting Plan

One of the comptroller's primary duties is to develop an accounting plan which will control the property of the university, prevent loss through error or fraud and provide the Trustees, president and other officers of the university with all requisite

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[1]American Council on Education, op. cit., Vol. 2, p. 167.

management information. An important part of this job is defining exactly what the needs of management are, for management itself cannot be expected always to know, out of the available mass of information, what it can use to best advantage or what the cost of various alternatives may be.

An accounting system for a university must meet the requirements of the institution in question. Universities are non-profit organizations. It is essential therefore, that they set up their budgets, maintain their accounts, and present their financial reports in accordance with generally accepted accounting principles appropriate to non-profit enterprises.

Educational institutions obtain considerable amounts of income from private and public gifts, grants, and appropriations on which financial limitations of various types are imposed. One of the most important functions of the accounting system is to insure the observance of those limitations. Universities, therefore, must provide for the keeping of fund accounts, a provision which is not found in commercial enterprises conducted for gain (an exception being the bond sinking fund).

The American Council on Education states that because of the varied nature of funds held by a university it is necessary for administrative purposes to sharply separate diverse funds but to group together (not combine) similar funds in accounts

and reports.[2]

Additionally, the Council's studies list the standardization of funds as recommended by the National Committee on Standard Reports:

1. Current funds- funds expendable for current operations of the institution.
   a. General-funds available for any of the current operations of the institution.
   b. Restricted-funds which must be expended for the current purpose indicated by the donors.

2. Loan funds- funds from which loans are made to students.

3. Endowment and other non-expendable funds- funds, the principle of which must remain intact.
   a. Endowment funds- funds the principal of which must be held intact, the income only being used.
   b. Funds held subject to annuity agreements- funds given to the institution with the understanding that payments would be made to annuitants.

4. Plant funds- funds for capital additions and assets acquired as the result of the expenditure of such funds.
   a. Unexpended funds- funds designated or appropriated for plant which have not yet been invested in plant assets.
   b. Invested in plant-assets acquired by gift or through the expenditure of funds designated or appropriated for plant purposes.

5. Agency funds- funds in the custody of the institution but belonging to students or others.[3]

The brevity of this paper will not permit delving into

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[2]American Council on Education Studies, Statements of Fund Transactions In Financial Reports, Washington, D. C., Vol 1, No. 11, (Nov 1937) pp 1-2

[3]Ibid, pp. 3-4.

the form and operation of accounting records, i. e., the mechanics of record-keeping, but instead, will treat the principles that have been found by the American Council on Education to be fundamental in constructing the accounts so that they will yield the information needed in university financial accounting and reporting. Principles, in addition to those previously cited in this chapter have been recommended by the Council as follows:

(a) Income and expenditures of auxiliary enterprises should be shown separately from other institutional operations.

The Council states as reason that these enterprises are expected to be self-supporting. The writer injects that separation may be julicious because of possible tax liability both property and income.

(b) Accounts should be kept on a modified accrual basis.

The Council reasons that complete accrual basis is not necessary since, although there is the stewardship requirement, there is no need to determine net profits and net worth. Consequently there is no need to report accrued interest receivable or allocate insurance premiums to subsequent periods. The writer offers a marginal difference of opinion in that in order to precisely determine effectiveness of stewardship it is not unreasonable or impracticable for the comptroller to require accounting on a strict accrual basis. Therefore, it is believed

that accrued interest and prepaid insurance premiums should be reported.

(c) The necessity for providing for renewals and replacements of property and of charging depreciation depends on the class of property under consideration.

The Council points out that many assets were donated and will be replaced on that basis, therefor, an allowance for depreciation and a depreciation reserve are unnecessary. However, the council indicates that institutional service property and auxiliary enterprise property should be depreciated and provision be made for replacement by reserves of actual cash or investment funds. Also investment real property should be depreciated. The writer adds that the comptroller should insist on depreciation of the latter in order to comply with Federal income tax requirements.

(d) Interfund borrowing should be avoided.

If done, the comptroller should require that the balance sheets of the funds involved clearly show the facts.

(e) Current restricted receipts should be reported as income only to the extent expended during the year.

The Council here has not supplied the information as to the accountability of the funds received but not reported as income. It is believed that the comptroller should set up a balance sheet account showing these funds as a short term loan

subject to return to donor or later conversion to usuable income.

Internal Control and Audit

Internal control and audit are important phases of the university accounting system and as such rank among the primary responsibilities of the comptroller. Clarence Scheps places the Internal Auditor directly under the Comptroller which positioning is concurred in.[4]

It is incumbent upon the Comptroller, through his Auditor, to insure that the following principles of internal control are adhered to:

(a) That there are no autonomous business functions within the general functions of the university. All business functions should be within the central control of the business office.

(b) That the internal organization of the business office is such that responsibilities are fixed and duties delineated so that the work of one employee or of one division serves constantly to check and verify that of another.

(c) That there is a well-defined subdivision of responsibility in the area of cash and credit

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[4]Clarence Scheps, Accounting for Colleges and Universities (Baton Rouge: LSU Press, 1949., p. 308).

operations. As Lloyd Morey expresses it, "No one officer nor his representative should buy the goods, check their receipt, approve the bill and pay the bill".[5]

(d) That detailed accounting information should be segregated into subsidiary ledgers controlled by one or more accounts in the general ledgers. Postings to the subsidiary ledger should be made by an employee other than the one who keeps the general ledgers.

(e) That the following mechanical equipment and pre-numbered financial stationery be used to provide additional checks and balances on the work of the business staff:

1. Cash registers with locked-in counters and lists.
2. Accounting machines with automatic totaling devices.
3. Check writing machines and protectographs.
4. Pre-numbered financial documents, such as receipts, checks, and purchaseorders.

(f) The employees in the business office be required to take annual vacations, be rotated as practicable and be bonded where appropriate.

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[5]Lloyd Morey, University and College Accounting, (New York, 1930, p. 213).

(g) That continuous internal auditing be employed.

(h) That external audit be conducted.

The audit of student tuition and fees is one of the most important areas of post-auditing. The registrations for each term should be audited in detail. Tuition scholarships, rebates, and remissions should be examined either completely or on a test check basis. The emphasis upon an audit of tuition should be to determine the amount of income which should have been received or accounted for.

The Budget

In the business world the "budget formulates a program of sales, production, and finance which assures management that a plan is being followed which will ensure an approximately known profit."[6] In the field of education, the budget serves other purposes. It is both an instrument of control and limitation and a comprehensive financial plan for efficient and serviceable operation. The Comptroller's primary responsibility is to see that the operating plans of the university are properly expressed in financial terms.

One of the chief purposes of the university budget is to afford an important type of control to the Board of Trustees. This board meets infrequently and its members give but little of their time to actual administration of the institution. In

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[6] W. A. Paton, Accountant's Handbook (2nd Edition, New York, 1938) p. 1178).

order, then, that the governing board may exercise its prerogatives, that is, guide the institution and determine its policies in advance outlining the operations of the university for a given period of time, a budget must be meticulously prepared and submitted to the board for its approval. The governing board thus extends its control over the institution by means of the budget which places limitations on the president's powers of control and supervision over the detailed expenditures of funds for the various divisions of the university. In like manner, the budget enables the president to extend his control over the detailed operation of the institution.

Clarence Scheps states that:

> The budget as adopted is not the product of the president's desires, the desires of the business office, or the desires of a segment of the faculty. Instead, it tends to meet the requirements of the faculty, president, deans, and business officers. The budget is a chart and plan without which a college cannot function satisfactorily.[7]

The Comptroller's part in the actual operation of the budget varies considerably in different universities, but he should, as a minimum, render appropriate counsel as to proper budgetary procedures. In most universities the controlled unit of the budget is the department, either the instructional department or the organized division, such as the bookstore, dining hall, or athletic department. The head of each organiza-

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[7]Clarence Scheps, op. cit. pp 85-86.

tion unit prepares and is guided by a budget. Budgets for expenses incurred in connection with finances, such as pension contributions, group insurance, and sinking fund contributions, is a particular responsibility of the comptroller and should not be delegated beyond his department.

There are two phases in the preparation of the budget: (1) the estimation of the income, and (2) the estimation of the expenditures. In preparing estimates of income, the comptroller should play the major role, particularly in estimating student fees, income from endowments, and state appropriations. To aid in estimating income from auxiliary enterprises the manager of each enterprise submits formal estimates to the comptroller.

Subject to approval of the president, the comptroller, after estimating income as accurately as possible, should issue a tentative allotment to each department head. This is not final but is used to get the budget process started, and to prevent departmental requests from greatly exceeding available resources. After issuing tentative allotments there should be opportunity for reclaim to the comptroller and if need be, to higher authority. However, the comptroller should require that a definite calendar be followed in the budgetary procedure.

As soon as an agreed figure on income has been obtained, the president, his cabinet of deans and the comptroller should determine the general policies that are to guide department heads in the preparation of their budget requests. Upon receipt of

the budget requests, the comptroller should tabulate the requests on summary forms which show changes in the requests from the budget of the current year and previous years.

The president should discuss each request with the head of the department concerned. The comptroller, of course, should be present at this conference in order to shed light on technical problems and bring forth accounting, statistical or legal aspects as appropriate.

Cost Accounting

The first essential step that the comptroller must take is to educate himself and the university management he serves in a sound cost philosophy, bearing in mind the limitations on the accuracy of the operating data on which all cost calculations are based and the limitations inherent in the methods used to compile and arrange the data in the form of cost information and cost reports. Every comptroller knows of the misconceptions that arise from the unthinking use of cost data, or the use of cost data unthinkingly prepared. It is important, therefore, that a clear understanding exists in the minds of all executives using regularly prepared cost reports as to the meaning and limitations of the figures involved.

The American Council on Education states:

> Although Educational Institutions are non profit organizations and, hence, college and university accounting is not concerned with the determination of net profits and net worth (except for auxiliary enterprises), it is, nevertheless,

> frequently necessary to compute total costs of various services performed. Total costs include those expenditures which are readily identifiable as being related exclusively to a particular service, project or department, known as direct costs, and an appropriate share of expenditures which are incurred in behalf of more than one function or unit of organization and often are related to the institution as a whole, known as indirect expenditures. Indirect expenditures include those for general administration, general expense, and libraries, and for the operation and maintenance of the physical plant. These service activities are necessary in carrying on the instruction and departmental research, organized research, and organized activities relating to educational departments, extension and public services, and the auxiliary enterprises. In order to determine the total cost of any of these primary functions of an educational institution, it is necessary to distribute indirect expenditures on an equitable basis to all the primary functions, and to add an appropriate share of such expenditures to the direct costs of each primary function.[8]

In constructing and maintaining a cost accounting system, the comptroller should bear in mind the various inequities that can manifest themselves in university management unless he is most capable in allocating indirect expenses and determining costs.

After World War II, as research programs grew, it became increasingly obvious that unless all costs were recognized and recovered in expense reimbursements, funds otherwise received and available for insttuction or other institutional purposes would be diverted to support research sponsored by either public or private agencies.

In privately controlled institutions the desire fre-

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[8]American Council on Education, College and University Business Administration, Vol. I, op. cit., p. 120).

quently is expressed by members of the board that the individual colleges of the university live within their own incomes insofar as possible. Friends and alumni may express dissatisfaction if they feel that within a university a portion of their college's endowment income is being used to support another college of that university.

John D. Millet states:

> The problem of allocating the indirect or overhead expenses of university operations is one of the major issues of cost analysis. Allocation of overhead expenditures is important for the reason that in a private university, where income is derived so largely from student fees, administrators of individual educational programs are likely to believe that all student fees arising from their instructional activities are to be devoted solely for the support of their instructional expense.[9]

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[9]John D. Millet, Financing Higher Education in the United States (New York: the Columbian University Press, 1952) Chapter 6. p. 83.

CHAPTER III

INTERPRETATION, CO-ORDINATION AND POLICY

Statements and Reports for Management

It is unnecessary to dwell at length on the importance of adequate statements and reports for the president and the Board of Trustees in the discharge of the comptrollership function. It is obvious that successful communication to the management of the essential facts about the financial affairs of the university is the climax of all the effort that the Comptroller puts into the management phase of his activities. To present the facts is not necessarily difficult but it is not enough; the facts must be communicated before the comptroller can consider his job as done.

David R. Anderson suggests a classification of reports for an industry type of management, which is essentially applicable to the Comptroller's function in a university:

Operating Reports- Current Control Reports and Summary Control Reports- (to note deviation from planned performance.)

Information Reports- Trend Reports, which are vertical comparisons of the results of an activity over a period of time, and Analytical Reports, which are horizontal comparisons of the results of different activities over a period of time.

Financial Reports- Static Reports, i. e., analysis of financial strength and structure as of a given date. Dynamic Reports, including Financial Control Reports, which measure financial condition

> against budgeted condition. Measurement of Effectiveness of Use of Funds Reports, which shows relationship of investments in types of assets. Reports of Changes in Financial Condition, which summarizes and analyzes changes in financial condition during a given period.[1]

Financial reporting is a logical extension of the accounting system, thus, if the accounting records are adequate, the preparation of financial reports and statements is a matter merely of regrouping and classifying the information supplied.

The necessity and importance of periodic reporting is recognized in the business field as a matter of evaluating stewardship. The administrators of universities are in much the same position. The public institution is financed by taxpayers who are entitled to full reporting. The private college is financed by gifts and endowments, the donors of which have a right to know how their donations are being expended. Clarence Scheps states that a well-prepared financial report does much to inspire the public with confidence in the work of the educational institutions and of their leaders.[2] Julius Schwertz adds that the controller preeminently is charged with the responsibility to protect the institutional integrity of the corporation he serves and represents and that in the preparation of the annual Report he should tell a "total story to a total audience".[3]

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[1]David R. Anderson, Op. cit., p. 235.

[2]Clarence Scheps, op. cit., p. 322.

[3]Julius Schwertz, The Controller as Chief Architect, The Controller, November, 1954, --118-123.

While Mr. Schwertz addressed himself, particularly to the public relations functions of the corporation controller, no less can be said of the university comptroller's responsibilities in that regard.

In addition to the published report, other forms of reports serve important purposes in universities. Reports to administrative officers and the Trustees furnish current information concerning the operation of the institution without which intelligent administration is impossible. Reports to division heads and deans concerning the status of budgets is an essential part of budgetary control. Finally, reports to heads of auxiliary enterprises, such as bookstores and dining halls, render important assistance in the administration of those enterprises.[4]

In examining the writings on university accounting pertaining to the reporting process the material appears to be somewhat restricted in scope. However, it is noted that John D. Millett in his treatment of the problem of financing higher education brings to light certain cost problems.[5] It would appear that the Comptroller in any university should not only keep abreast of those problems by appropriate analysis but be alert to report his findings much as does the industry controller along the lines of the classification presented at the commencement of this chapter.

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[4]Clarence Scheps, op. cit., p. 322.

[5]John D. Millet, op. cit. p. 169

Millet states:

> One of the major difficulties of college and university administration is the utilization of space. Academic tradition has given little attention to the costs of maintaining extensive facilities utilized only a few hours a day or a few days a week.[6]

Again Millet advises:

> The printing and publication practices of many colleges and universities constitute still other types of activities in which economies may be possible. By their very nature colleges and universities have a strong disposition to print and publish too much material.[7]

In summary it is felt that the university comptroller has an analytical reporting function, which perhaps has not been stressed sufficiently in contemporary writings.

Administration of Staff Benefit Programs

Most educational institutions in the United States have retirement plans, and an increasing number also have life insurance, hospitalization, surgical benefits, sick leave, vacation, and other similar welfare plans. Staff benefits are in fact, part of the cost of personal service and the comptroller should compute their dollar value and make known such costs to the benefitted employees and the officers of the administration.

The retirment policy, involving adequate pension provisions is a vital part of the administration of an educational institution, and it merits considered and intelligent develop-

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[6]John D. Millet, Ibid, p. 171.

[7]John D. Millet, Ibid, p. 170.

ment and periodic review. Expenditures to support a retirement plan are justified because the plan will further the interests of the institution. If the college can assist members to look forward to security after retirement, it may expect from them better morale, greater loyalty and more effective accomplishment during the years of active service. Notwithstanding the altruistic aspects of an adequate retirement policy, the costs thereof should be carefully examined and appropriate funds should be set up by mutual contributions of employer and employee.

A college should concern itself with making retirement of its staff members financially feasible for them. There are involved such questions as: How large should the retirement income be? Manifestly it is not feasible that the retirement formula should be such as to provide each participant a benefit which will meet all of his individual and varying needs. A realistic approach is to formulate benefit schedules adequate to satisfy the normal or average situation. In this connection, the Old Age and Survivors Insurance (OASI) coverage was extended to all educational institution in 1954. Institutional retirement plans should be related carefully to the social security formula. It is the comptroller's accounting function to insure that proper recording and reporting of salary deductions are made.

Almost all colleges provide some benefit for survivors of deceased staff members. Careful integration of life insurance

coverage on a group basis with federal social security benefits and death benefits provided by retirement systems can result in an effective and economical survivor benefit program. These combined provisions afford the individual a substantial basis for developing the total life insurance protection which his family needs.

In addition to retirement benefits, group life insurance, and private life insurance, there are the group hospital surgical and medical expense plans. Educational institutions should support these plans to the extent of administering them locally through payroll deductions. If adequate resources are available, it is proper for the institution to share with the employee the premium payments. The comptroller's function is to perform not only the accounting role but the advisory role in apprising both the university executives and the benefitted staff members of the costs and relative merits of the various types of insurance coverage. The costs of these programs to be borne by university funds should be not only budgeted as an annual charge, but should be carefully forecasted to bring to light the impact of such costs on the future financial position of the university.

CHAPTER IV

CONCLUSION

The salient thought that emanates from this paper is that in the academic world of the university which its concentration in imparting knowledge to the youth of the country and its bent on conducting research for the betterment of knowledge, there is needed a corps of skillful financial managers to conduct the business affairs of the university. It is just as necessary to extract the most out of the tuition dollar of the university as it is the sales dollar of the corporation. With competent professional financial management, faculty members are freed from the tedium of university business affairs. It is believed therefor that the comptroller has a field of great opportunity in university financial management.

Just as in a corporation where the comptroller is in a psotion to steer the ship of state in an advisory capacity, this fact is no less true in a university for the reason that the large university is also big business. Capital investments in the form of buildings, grounds and equipment run into the hundreds of millions of dollars. Real estate and securities holding similarily are mammoth; payrolls now constitute a million persons. The university comptroller through his financial capability is in a position to render a splendid service in the optimum education of each youngster at minimal cost to his parents.

APPENDIX

DUTIES OF A CONTROLLER

As Defined by the Controllers Institute of America

1. The installation and supervision of all accounting records of the corporation.

2. The preparation and interpretation of the financial statements and reports of the corporation.

3. The continuous audit of all accounts and records of the corporation wherever located.

4. The compilation of production costs.

5. The compilation of costs of distribution.

6. The taking and costing of all physical inventories.

7. The preparation and filing of tax returns and the supervision of all matter relating to taxes.

8. The preparation and interpretation of all statistical records and reports of the corporation.

9. The preparation, as budget director, in conjunction with other officers and departments heads, of an annual budget covering all activities of the corporation, for submission to the Board of Directors prior to the beginning of the fiscal year. The authority of the controller with respect to the veto of commitments or expenditures not authorized by the budget, shall, from time to time, be fixed by the Board of Directors.

10. The ascertainment currently that the properties of the corporation are properly and adequately insured.

11. The initiation, preparation and issuance of standard practices relating to all accounting matters and procedures and the co-ordination of systems throughout the corporation, including clerical and office methods, records, reports and procedures.

12. The maintenance of adequate records of authorized appropriations and the determination that all sums expended pursuant thereto are properly accounted for.

13. The ascertainment currently that financial transactions covered by minutes of the Board of Directors and/or the Executive Committee are properly executed and recorded.

14. The maintenance of adequate records of all contracts and leases.

15. The approval for payment (and/or countersigning) of all checks, promissory notes and other negotiable instruments of the corporation which have been signed by the Treasurer or such other officers as shall have been authorized by the by-laws of the corporation or from time to time designated by the Board of Directors.

16. The examination of all warrants for the withdrawal of securities from the vaults of the corporation and the determination that such withdrawals are made in conformity with the by-laws and/or regulations established from time to time by the Board of Directors.

17. The preparation or approval of the regulations or standard practices required to assure compliance with orders or regulations issued by duly constituted governmental agencies

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